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MICC
ANNUAL
REPORT
1967



The Mortgage Insurance Company of Canada



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The Mortgage Insurance Company of Canada

1967
ANNUAL
REPORT

HEAD OFFICE

25 Adelaide St. West
Toronto 1, Ontario

BOARD OF DIRECTORS

T. L. BROCK
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Aluminum Company of Canada, Ltd.
Montreal, Quebec

C. W. JAMESON
Joint General Manager
The Bank of Nova Scotia
Toronto, Ontario

J. C. NEELY
President
Alcan Design Homes Ltd.
Montreal, Quebec

DUDLEY DAWSON
Senior Vice-President
Greenshields Incorporated
Montreal, Quebec

MAX H. KARL
President and Treasurer
Mortgage Guaranty Insurance Corp.
Milwaukee, Wisconsin, U.S.A.

F. WILLIAM NICKS
Chairman of the Board and President
The Bank of Nova Scotia
Toronto, Ontario

W. J. DIXON
Deputy General Manager
The Bank of Nova Scotia
Toronto, Ontario

PETER KILBURN
President
Greenshields Incorporated
Montreal, Quebec

G. D. SUTTON
Vice-President and General Manager
Canadian Enterprise Development
Corporation Ltd.
Montreal, Quebec

GARDNER ENGLISH
President and General Manager
The Mortgage Insurance Company
of Canada
Toronto, Ontario

PAUL LEMAN
Executive Vice-President
Aluminum Company of Canada, Ltd.
Montreal, Quebec

J. L. TOOLE
Vice-President, Accounting
and Finance
Canadian National Railways
Montreal, Quebec

W. S. HARVEY
Senior Vice-President — Finance
Air Canada
Montreal, Quebec

JAMES H. McDOUGALL
General Manager
Greenshields Incorporated
Montreal, Quebec

G. J. VAN DEN BERG
Vice-President — Finance
Canadian Pacific Railway Company
Montreal, Quebec

EXECUTIVE OFFICERS

Chairman of the Board
F. WILLIAM NICKS

President and General Manager
GARDNER ENGLISH

Vice-President
C. W. JAMESON

Vice-President
REGINALD T. RYAN

Secretary-Treasurer
RONALD C. BROWN

PRESIDENT'S REPORT



The year 1967 was one of continued progress for The Mortgage Insurance Company of Canada which has completed three and one-half years of successful operation in the new field of private mortgage insurance. The period under review was characterized by the persistence of relative shortage of funds in capital markets, particularly mortgage money, and the resultant pattern of high and rising interest rates. Despite the difficulties arising from these money market problems, I am glad to report that your company recorded increases in new business originated, premiums written, total assets and profits.

In earlier annual reports the President's statement has included a brief description of the services offered by the company. Such a résumé has been included this year in later pages of this report.

OPERATIONS

Mortgage insurance commitments for the year totalled \$80,016,000 compared with \$67,700,000 in 1966. Insurance contracts completed amounted to \$64,600,000 and insurance in force stood at \$203,000,000, the comparable 1966 figure being \$146,000,000.

Gross premiums written on new insurance amounted to \$1,076,000 compared to \$1,033,000 the previous year. A larger backlog of uncompleted insurance contracts remained on the books at the close of 1967, which will result in proportionately greater premium income in 1968. This fact explains the modest growth in premiums written compared with the greater proportion of new insurance committed.

The business of the company is all written as single premium insurance. This type of insurance requires that a portion of currently written premiums is drawn into current income and the balance is credited to Unearned Premium Reserve. In subsequent years the balance of unearned premiums is periodically brought into income. The formula and method of determining earned premium is prescribed

by the Superintendent of Insurance. Premiums earned in 1967 amounted to \$391,985. Earned premiums in 1966 totalled \$264,165.

A further reserve is maintained by the company designated as Policy Reserve. Credits are made annually to this reserve equal to one half earned premium after second policy year on all business in force. Credits to Policy Reserve at year-end amounted to \$102,136.

Operating net income after all expenses, claims, appropriations to Policy Reserve and income taxes amounted to \$239,278 compared to \$182,930 for 1966. *Profit.*

The investment portfolio of the company, consisting chiefly of bonds and preferred stocks, is tabulated as at December 31, 1967, as follows:

Government of Canada and Government-guaranteed Bonds	\$1,926,125
Provincial and Municipal Bonds	3,256,919
Corporate Bonds	782,169
Preferred Stocks	861,827
Common Stocks	31,216
Total	<u>\$6,858,256</u>

The company maintains a reasonable segment of its bond portfolio in short government maturities to meet requirements for claims. The greater part of the remainder of the bond portfolio is invested in long maturities. The weakness in bond prices in the recent past has caused a market deficit position indicated in the balance sheet. Since the liabilities of the company are substantially mid-to long-term in character and securities held are of very high grade, current market depreciation has minor effect on operations.

Average rate of return on investments, after investment expenses, was 5.95%.

During 1967 the roster of Approved Lenders under the MICC plan was increased by four and our lender group now includes 35 institutions. Two chartered banks became



Approved Lenders under the company's high ratio plan and a third bank has participated as lender on conventional loans. The gradual enlargement of the lender group is consistent with the stated policy of the company to provide the borrowing public of Canada with the broadest possible mortgage facilities. We expect this larger lender group will contribute to the rapid increase of insurance volume.

UNDERWRITING AND CLAIMS

Underwriting experience, both as to quality of new insurance applications and claims received, has continued to be very favourable. One important measure of mortgage quality is the ability of the borrower to carry his obligation. Ratio of mortgage payment to income of borrower on loans insured in 1967 averaged 21% compared with a recognized maximum allowable ratio of 27%. In a market of steadily rising house prices and of increasing dollar amount of mortgages the maintenance of conservative payment ratios is reassuring. The underwriting process is further geared to close watch over land and building valuation as reflected in appraisal reports. Average loan committed for insurance in 1967 was \$16,800 on existing houses and \$21,900 on newly-constructed properties.

Claims settlement costs amounted to \$12,768 for the year compared with \$13,897 in 1966. Claims experience was most satisfactory when measured against the substantially larger volume of insurance in force. Ratio of insured mortgages in default during the year remained under $\frac{1}{2}$ of 1%. This ratio reflects a continuation of the company's experience since inception and also is as favourable as the overall experience of institutional mortgage lenders. While buoyant economic conditions have played a part in this impressive default and claims record, your management believes that careful underwriting methods and intensive collection practice of both MICC and its approved lenders have had an important bearing on our good record.

CAPITAL STRUCTURE

Growth of insurance in force during the year required the introduction of additional capital. Shareholders made

payments on uncalled subscriptions to capital stock in the amount of \$600,000. At December 31, 1967, paid-in capital stood at \$2,600,000. Surplus and retained earnings amounted to \$852,200 which, with the capital account, represents a shareholder equity of \$3,452,200.

ECONOMIC CONDITIONS AND THE MORTGAGE MARKET

The year 1967 was one of diverse influences on mortgage investment. Demand for funds remained high and exceeded supply for the third successive year. Coupled with continued and rising demand for borrowed capital from governments and corporations, a rising interest rate structure was inevitable. Monetary conditions and government budget deficits abroad again had major bearing on conditions in Canadian financial markets. Although Canada built some 164,000 new dwelling units in the year — which level had been exceeded only three times in its history — there were cries of "crisis" and "failure of housing policy". These critical observers were also dismayed at the extent of institutional and government mortgage investment, notwithstanding the fact that government participation reached an all-time high and corporate lenders maintained a respectable volume of new mortgage loans.

A more sober look at housing and mortgage investment leads one to the conclusion that, since this segment of the nation's capital requirement must compete with other demands in the private and public sector, housing fared reasonably well in a difficult year. The cost of new housing, which is likewise under constant attack by critics, has in fact increased no more rapidly in most parts of Canada than other components that make up the cost of living. In summary, housing and mortgage investment did as well, all factors considered, as might have been expected in the present business and government climate.

The above observations are not to suggest that a continuance of a "business as usual" attitude is warranted. Urban housing in Canada has been plagued with the growing embattlement between provincial and municipal levels of government, particularly in densely settled areas of central Canada. Little progress has been made to rational-

ize such serious matters as standardized building codes, realistic specifications for subdivision improvements and the avoidance of so-called gold-plated services and costs of education and commuter transport. Conflicts between political bodies on these issues have stalled effective solutions and have prevented the building industry from creating the larger number of new housing units which it has the proven ability to produce.

The consumer has contributed his share to the problems of new housing by showing a marked preference for "more house" and for more numerous and expensive amenity features. These preferences are partly responsible for the rising cost per unit produced. This factor is a product of our affluent society and in a free economy is largely beyond the influence of governments, builders, or mortgage investors.

The foregoing applies in large measure to the sector of housing demand represented by economically viable families. Housing for Canadians who cannot pay market rents or market prices must be provided by governments or by the private sector with government assistance. Impressive steps have been taken in the past year by several provinces to increase the supply of housing in this category. It is to be expected that there will be significant production of better housing for the under-privileged in both near and long term. It should be borne in mind that this latter class of housing will have to compete in the open financial market for funds to carry out the objectives of its sponsors.

Governments throughout the western world are under heavy pressure to reduce deficits. The adoption of realistic priorities of expenditure by all levels of government with consequent reduction of budget deficits would be the most significant step forward in lowering interest rates and improving capital supply for mortgage purposes. There is encouraging evidence at this writing of responses to these pressures and the long hoped for reduction in interest rates could be one of the favourable results. Lower money cost would produce a most beneficial effect for the housing industry and would broaden the group of Canadian families that could undertake home ownership.


OUTLOOK

Total mortgage investment in Canada is estimated at \$2,500,000,000 for 1967. This impressive figure represents an increase of about 15% over 1966. The operating results of The Mortgage Insurance Company of Canada show that the business of the company more than kept pace with the industry in a difficult year. Mortgage interest rates are now at a high for this century and little relief is seen for the balance of 1968. While a lower level of interest rates would be conducive to a more rapid growth in the company's business, the usefulness of the MICC mortgage plan has increased its acceptance by the home owner even in abnormal times.

The re-entry of Canadian banks into the mortgage field in 1967 opened a new source of institutional funds which has already made a worthwhile impact. In future years the further participation of banks plus the growth of other institutions traditionally in the mortgage field should provide a much needed addition to mortgage money supply. Pension fund investment in mortgages is growing and this source will further increase the total pool.

At the close of 1967 the Government of Canada announced that the supply of funds for mortgage loans, which reached the record sum of \$650,000,000 in the past year, would be substantially reduced in 1968. Possible reduction in government deficits and some curtailment in capital formation in the business sector should provide additional funds for mortgage purposes from institutional mortgage lenders.

The Mortgage Insurance Company of Canada insured mortgage plan is an important and increasingly effective adjunct to these growing mortgage facilities. Our growth should proceed in response to these enlarged sources and established consumer demand.



February 21, 1968.

The Mortgage Insurance Company of Canada

BALANCE SHEET As at December 31, 1967

ASSETS		1967	1966
		\$	\$
CURRENT ASSETS			
Cash		147,924	104,464
Premiums receivable		7,550	17,770
Interest accrued and sundry receivables		76,463	61,242
		<u>231,937</u>	<u>183,476</u>
SPECIAL REFUNDABLE TAX		<u>6,520</u>	<u>4,261</u>
INVESTMENTS			
Bonds, debentures and stock, at market (cost 1967 — \$6,858,256; 1966 — \$5,345,790)		6,278,150	5,117,600
Mortgages (note 2)		121,070	32,092
Real estate acquired on claim settlement		—	30,600
		<u>6,399,220</u>	<u>5,180,292</u>
		<u>6,637,677</u>	<u>5,368,029</u>

Signed on behalf of the Board,

F. WILLIAM NICKS, Director.

GARDNER ENGLISH, Director.

LIABILITIES

	1967 \$	1966 \$
CURRENT LIABILITIES		
Provision for claims	13,500	4,196
Accounts payable and accrued liabilities	19,477	7,626
Premium taxes	10,785	10,553
Income taxes	91,008	104,083
	<u>134,770</u>	<u>126,458</u>
RESERVES		
Reserve for unearned premiums	2,948,571	2,264,364
Additional policy reserve	102,136	18,984
	<u>3,050,707</u>	<u>2,283,348</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 1)		
Authorized —		
50,000 shares of the par value of \$100 each		
Issued and partly paid —		
40,000 shares	4,000,000	4,000,000
Uncalled subscriptions	1,400,000	2,000,000
	<u>2,600,000</u>	<u>2,000,000</u>
Paid-up capital	2,600,000	2,000,000
SURPLUS	852,200	958,223
	<u>3,452,200</u>	<u>2,958,223</u>
	<u>6,637,677</u>	<u>5,368,029</u>



The Mortgage Insurance Company of Canada

STATEMENT OF SURPLUS

For the Year Ended December 31, 1967

	1967 \$	1966 \$
EARNED SURPLUS		
Balance — beginning of year	225,999	43,884
Net earnings for the year →	239,278	182,930
Profit (loss) on sale of securities →	6,615	(815)
Balance — end of year	<u>471,892</u>	<u>225,999</u>
CONTRIBUTED SURPLUS		
Balance — beginning of year	732,224	895,714
Write-down of investments to quoted market value	<u>351,916</u>	163,490
Balance — end of year	<u>380,308</u>	732,224
SURPLUS — END OF YEAR	<u><u>852,200</u></u>	<u><u>958,223</u></u>

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of The Mortgage Insurance Company of Canada as at December 31, 1967 and the statements of earnings and surplus for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1967 and the results of its operations for the year then ended, in accordance with accounting practices appropriate to the insurance laws of Canada applied on a basis consistent with that of the preceding year.

McDONALD, CURRIE & CO.,
Chartered Accountants.

Toronto, January 12, 1968.

The Mortgage Insurance Company of Canada

STATEMENT OF EARNINGS

For the Year Ended December 31, 1967

	1967 \$	1966 \$
INCOME		
Premiums earned	308,833	264,165
Application fees	61,414	58,396
Investment income after investment expenses	333,006	241,720
Total income	703,253	564,281
EXPENSES		
Claims incurred	12,768	13,897
Insurance underwriting and policy issuance expenses	105,441	93,161
Premium taxes	21,861	20,668
Other operating expenses	141,405	116,625
Total Expenses	281,475	244,351
	421,778	319,930
PROVISION FOR INCOME TAXES	182,500	137,000
NET EARNINGS FOR THE YEAR	239,278	182,930

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 1967

1. CAPITAL STOCK

The authorized capital may be increased to 150,000 shares of the par value of \$100 each. The company has granted options in respect of 3,000 shares exercisable on or before June 1, 1969 at \$125 per share.

2. MORTGAGES

Mortgage assets arise from resale of real estate acquired through payment of claims.





APPROVED LENDERS

The Canada Life Assurance Company	Metropolitan Life Insurance Company
The Canada Trust Company — Huron & Erie Mortgage Corporation	Montreal Trust Company
Canadian Premier Life Insurance Company	The Mutual Life Assurance Company of Canada
The Central Trust Company of Canada	National Trust Company Limited
Confederation Life Association	North American Life Assurance Company
Crown Life Insurance Company	The Northern Life Assurance Company of Canada
The Dominion Life Assurance Company	Northland Trust Company
The Eastern Canada Savings and Loan Company	Norwich Union Life Assurance Society
Equitable Life Insurance Company of Canada	The Bank of Nova Scotia
The Excelsior Life Insurance Company	Nova Scotia Savings & Loan Company
Fidelity Life Assurance Company	The Ontario Loan and Debenture Company
The Imperial Life Assurance Company of Canada	Rowcliffe Investments Limited
Industrial Life Insurance Company	Standard Life Assurance Company
Investors Syndicate Limited	Sun Life Assurance Company of Canada
The Laurentian Mutual Assurance Company	The Toronto-Dominion Bank
London Life Insurance Company	The Waterloo Trust and Savings Company
	The Western Savings and Loan Association

CENTRAL COVENANTS LIMITED

First mortgage loans insured under the MICC high ratio plan are joint loans made by the Approved Lender and Central Covenants Limited. Normally, the Approved Lender is limited by statute to mortgages not exceeding 75% of value. On MICC loans, the senior portion of the loan (not exceeding 75%) represents the investment of the Approved Lender and the junior portion is held by Central Covenants Limited. The policy of mortgage insurance issued by The Mortgage Insurance Company of Canada, in effect, guarantees the junior holder against loss through foreclosure.

The Mortgage Insurance Company of Canada

INSURED MORTGAGE PLAN

The Mortgage Insurance Company of Canada was incorporated by Act of Parliament in December, 1963. In co-operation with 35 major financial institutions, MICC makes available to the public a mortgage financing plan which provides loans up to $87\frac{1}{2}\%$ of value. Loans are made for purchase of a new or existing house, or the refinancing of an existing mortgage, to consolidate debts or to obtain cash or to finance renovations.

Loans are available on residential property only, up to a maximum of \$50,000. The mortgage interest rate is $\frac{1}{4}\%$ above the prime lender's rate for a 75% conventional mortgage, and the borrower pays an insurance premium equal to 2% of the loan.

Under the MICC plan, a first mortgage is made jointly by the institutional lender and Central Covenants Limited, a separate mortgage investment company. The borrower deals only with the institutional lender, the role of MICC being to provide mortgage insurance coverage, offering substantial protection to the lender in the event of loss on foreclosure of the mortgage.

This service is offered to the public through more than 1,600 offices of our Approved Lenders in some 570 communities across Canada. Loans are available in all ten provinces of the country.

The Mortgage Insurance Company of Canada has a secondary programme of insuring 75% conventional mortgages, which are of particular interest to pension funds. The insurance premium is $1\frac{1}{4}\%$ for loans up to \$50,000 and $1\frac{3}{4}\%$ for rental loans from \$50,000 to \$500,000.



BUILDING

Building a new home is an exciting adventure for any family, as shown in our cover picture. The MICC mortgage plan has enabled many thousands of Canadian families to acquire home ownership with reasonable financing cost.



BUYING AN EXISTING HOME

The MICC plan can also be used by families who wish to purchase an existing home or, if they own their present home, an MICC mortgage can be arranged to raise cash, to consolidate other obligations, etc.



REMODELLING

In the face of rising prices for new homes, more families are giving careful consideration to improving or renovating older homes. MICC financing can be used to cover a major portion of the cost of such renovations.

